
Minutes

Board of Natural Resources Meeting

May 6, 2008
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

The Honorable Doug Sutherland, Commissioner of Public Lands
Bruce Bare, Dean, University of Washington, College of Forest Resources
The Honorable Jon C. Kaino, Commissioner, Pacific County
Bob Nichols, for the Honorable Christine Gregoire, Washington State Governor

BOARD MEMBERS ABSENT

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences
The Honorable Terry Bergeson, Superintendent of Public Instruction

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:05 a.m. on, May 6, 2008 in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Jon Kaino moved to approve the April 1, 2008, Board of Natural Resources Meeting Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

None

TIMBER SALES (Action Item)

Proposed Timber Sales for June 2008 (Handout 1)

Jon Tweedale, Assistant Division Manager, Product Sales & Leasing Division, approached the Board to provide the timber sales presentation. Due to technical difficulties Mr. Tweedale began his presentation without the aid of the PowerPoint presentation. He directed the board members to the handout of his presentation.

Mr. Tweedale stated that the international pulp market is strong and that the majority of the pulp produced on the west coast is sent to the international markets. This is good news for the blowdown sales that will contain a significant amount of pulp. The pulp log price per ton is approaching the hemlock saw log price. Log stumpage prices have stabilized; douglas fir lumber prices have gone up significantly and hemlock is stable. Mr. Tweedale said that the inventory of higher priced stumpage that the purchasers were carrying on the books has been moved out of the system and is being replaced with current priced stumpage which indicates that the markets are in good shape. He noted that another indicator is that the Department sold all its sales this month; not only did all the sales sell, but the numbers of bidders has increased as well. DNR saw bids from saw mill purchasers, brokerage purchasers, and merchandisers. Pulp mills are also bidding because the market is so tight for pulp logs that many mills that exited chipping manufacturing are now looking at reinstituting chipping facilities to have a steady supply of pulp. Mr. Tweedale explained that the market dynamics are playing out and the holes are being filled in by entrepreneurs and new markets. The Department had lost markets in Southeast Region, but because of the excess supply there, some pulp mills are putting in chipping facilities in the Yakima area.

Chair Sutherland asked if the facilities were mobile.

Mr. Tweedale replied that most of them are mobile; they have flail debarkers, which is a chain that flails around and debarks the log, and the material goes right into a mobile chipper. The mobile units usually consist of two semi truckloads of equipment.

Chair Sutherland stated that this should reduce the Department's transportation costs.

Mr. Tweedale stated that it does. He said that the dispersed model makes more sense than stationery sort yards of the past. DNR staff has talked with the companies in Southeast Region encouraging them to put in one of the facilities, and are very close to one being established in Yakima.

Chair Sutherland asked if the mobile facilities help in our salvage efforts.

Mr. Tweedale said that they help tremendously.

April 2008 Sales Results:

19 sales offered & 19 sold; 86.6 mmbf offered & 86.6 mmbf sold; \$15.3 million minimum bid & \$19.8 million sold; \$177/mbf offered & \$229/mbf sold; average number of bidders = 3.1

Mr. Tweedale stated that half of the Department's no bid sales from previous months sold last month. The no bid ratio has dropped to 8%.

Jon Kaino said that the no bids seem to be more prevalent in certain areas over the last few months.

Mr. Tweedale replied that it had to do with the mix of species; the coastal region and the coastal area of Olympic region is very heavy to hemlock and the no bid ratios were high in western Jefferson, western Clallam, Grays Harbor, and Pacific counties on the coast region because of an abundance of small hemlock, which is much lower in value than douglas fir, and at that point there was an excess of chips on the market; that whole dynamic has changed which is the reason why there were so many no bids. The Department is optimistic that Evergreen Pulp will finalize their purchase in Gray's Harbor, they have stated they will begin buying pulp in June or July.

FY 2008 Sales Summary

472 mmbf sold; May and June - 181 mmbf sold for a total of 653 mmbf sold. 15 mmbf deferred (no-bids); 11 mmbf deferred for a total of 26 mmbf deferred sales which will be carried into next year's sustainable harvest. 20 mmbf of blowdown sales with 8 mmbf added blowdown for a total of 28 mmbf of blowdown. Grand total of 707 mmbf.

Bruce Bare asked if that is all FY 2008.

Mr. Tweedale replied that the total for FY 2008 will be 653 mmbf. He noted that the Department also sold 16,000 poles, which were individual sales. He said that when the Department adds \$600 to \$1400 a thousand for cedar poles it is adding significant value. Phil Kirner and Ken McGee run the pole program and Mr. Tweedale has given them a goal of selling 25,000 to 50,000 poles per year in the future. Mr. Tweedale explained that Mr. Kirner and Mr. McGee deserve a lot of credit for the work they are doing as it is adding tremendous investment return to the trusts.

FY 2008 Targets

16,000 poles sold; 6.6 mmbf delivered log sales; 7,340 FIT treatments

Mr. Tweedale stated that the 6.6 mmbf delivered log sales was a low number and had to do with timing. The Department expects that number to go up to about 30 to 40 mmbf including the blowdown.

Chair Sutherland asked if that includes contract logging.

Mr. Tweedale stated that it does include contract logging. He noted that 20 mmbf of the Rue Creek blowdown is coming up for sale and will be contract logging that will be sold in June. Mr. Tweedale said that the forest improvement treatments add several thousand dollars in net present value, and the asset value to the trusts is significant. He thanked the Board noting that because of the resolution they passed last month the Department has been able to bring forth both the Oddfellows and Rue Creek blowdown sorts.

Chair Sutherland asked Mr. Tweedale if he had been able to address being able to recognize the timber with the wind and stress damage with the industry.

Mr. Tweedale replied that he has not gotten any additional feedback since the initial scare. Staff is monitoring it and is waiting to hear any concerns. He said that he will keep the Board apprised of the situation.

Mr. Kaino said that he wonders if the reason could be because a large amount of the damaged timber is hemlock and because the chip prices are high it may be more profitable to sell it for chip wood than saw logs.

Mr. Tweedale said that is a good point. He explained that from an appraisal and investment standpoint the low end of the hemlock saw log is probably better being put into the chip area. For example, an 8 inch log which would not normally be put into a pulp log, but now you would break even by putting it into the pulp sort, versus the saw log sort. The larger diameter, over 8 inches, is not showing the stress damage like the smaller diameter.

Proposed June 2008 Board Sales:

17 sales at 70.4 mmbf; \$13.7 million minimum bid; average \$170/mbf. There are 3 sales that have not been through the 30-day Forest Practice Appeal period, but will have by the time they go to auction.

SEPA comments included 2 comments on the Dry Elwha on erosion, noise, and water run-off. One comment on the Pontiac Trap: Okanogan Highlands regarding cumulative impacts concerning the haul route, not the area adjacent to the gold mine but the timber sale would be additional traffic on the haul road for the gold mine.

MOTION: Jon Kaino moved to approve the June 2008 timber sales.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

LAND TRANSACTIONS

Bear Creek Purchase #08-081669 (Handout 2)

Evert Challstedt, Property and Acquisition Specialist and Paul McFarland, Northwest Region Transaction Coordinator, approached the Board to present the Bear Creek Purchase.

The Department of Natural Resources proposes to purchase 985 acres, more or less, of real property owned by Bear Creek Timber LLC and located in Snohomish County. The purpose of this purchase is to acquire working forest lands at risk of conversion to non-forest uses. The Common School Trust will acquire property that has income production potential. The property is approximately 5 miles east of Arlington and is within Section(s) 3, 9, 10, and 15, Township 31 North, Range 6, East, W.M., in Northwest Region. The purchase price will be one of the following options:

- A. \$4,150,000 plus $\frac{1}{2}$ the compensating tax if the tax is computed at less than \$200,000.
- B. \$4,000,000 plus all the compensating tax if the tax is computed at more than \$200,000.

Note: Forest Land compensating tax is governed by RCW 84.33 and computed by the County Assessor at the time of closing. Conveyance of title will be by Statutory Warranty Deed and title insurance will be provided by the seller. This property is being purchased per legislative appropriation under 2008 Regular Session, 60th Legislature, Engrossed Substitute House Bill 2765, Chapter 328, WA Laws of 2008, Section 3043. The State will acquire all mineral rights owned by Bear Creek Timber LLC. The property includes a log house and out buildings.

DISCUSSION:

Mr. Challstedt explained that the property is adjacent to the Jim Creek forest block. The property does include a log house and mill complex buildings. There is a residential development approaching from the west which is typical of the west sloped of the Cascades and property values are rising. Forest owners are finding it more profitable to subdivide their land than to hold it for long-term forestry. The legislature has recognized this situation and has appropriated funds for the Department to buy these at risk forest lands. This property fits that description as it is at risk for conversion to non forestry uses.

Mr. McFarland addressed the variety of existing stands on the property. There is a mix of age classes that will allow some near-term thinning opportunities, will generate some short-term income, and will also result in potential regeneration harvest in approximately 20 years.

Bruce Bare asked if the stands were planted.

Mr. McFarland replied that they were.

Jon Kaino asked how pre-merchantable timber is appraised.

Mr. Challstedt explained that they use a computer program that calculates the future values.

Mr. McFarland noted that the property contains a home, mill complex, an office, kiln, and a barn. The property has been rented and occupied by the same tenant for 15 years. The property is unique in that it does have an established renter and a small mill. The Department will maintain the rental situation which allows some security of those investments. This purchase will preclude the possible development of 40 or more residential units on this property.

Mr. Challstedt pointed out that the central location of the complex of buildings makes it desirable to include them in the total purchase.

Mr. Nichols asked what the acreage of the house and buildings is.

Mr. McFarland replied that it is about 5 acres in total. He pointed out that this transaction will allow the Department to do some road abandonment that will avoid some stream adjacent parallel road in the drainage along Bear Creek, and will also allow removal of two fish blocking culverts which are benefits from an RMAP point of view.

Mr. Kaino asked if they would put bridges in or just remove them.

Mr. McFarland said they would be removed and the roads abandoned. The age class distribution contains early plantings to 10 years old, all the way to a few acres that are over 60. The acres that are 20 to 50 years are the acres that will be available for some near-term commercial thinning opportunities.

Mr. Challstedt explained that the property was appraised using a staff appraiser. The total market value was determined to be \$4,270,000. Components of value include \$222,000 for timber, \$2,659,000 for reproduction and pre-merchantable timber, \$1,182,000 for land and \$211,000 for improvements. Reproduction and pre-merchantable timber is determined using the Department's computer program that discounts all costs and future revenues discounted back to today's value.

Mr. Kaino stated that he would like to talk to staff at some point to understand how that all works.

Mr. Challstedt explained that the purchase price has been negotiated to be \$4,150,000 plus $\frac{1}{2}$ the compensating tax (if the tax is computed at less than \$200,000). If the tax is greater than \$200,000 the purchase price will be \$4,000,000 and DNR will pay all the compensating tax. The Department recognizes that this is an opinion of value and the real market value is the negotiated price between the buyer and seller which will be a two-tiered purchase price based on the amount of the Forest Land Compensating Tax. The agreement is a purchase price of \$4,150,000 plus $\frac{1}{2}$ the compensating tax if the tax is computed at less than \$200,000, or a purchase price of \$4,000,000 plus all the compensating tax if the tax is computed at more than \$200,000. The Department will not know what the tax will be until closing when it is computed by the county assessor. There is an indication that it is going to be less than \$200,000.

The investment value has been computed to be \$3,218,999 and is the net present value of all the cash flows discounted back to today's value at a 5% discount rate. This is the value of the property to the Department when managed for long-term forestry. The legislature recognized this disparity in value for land likely to convert to non-forestry uses, and have asked the Department to report this value difference in October for the intent of reimbursement. The intent of the legislation is to retain such lands in long-term forestry to protect the forest landscape.

Bruce Bare asked if this is the difference between highest and best use and forest use.

Mr. Challstedt said that it is.

Bruce Bare asked if it is part of the working forest conservation program.

Chair Sutherland explained that the difference between the 3.2 and the 4.2 is a premium that we pay that is the highest and best use increased value.

Jon Kaino said we are paying too much for this specific intended forest land and the reason we do that is to keep it in forest land and out of residential development.

Chair Sutherland explained that part of the reason that this is such a critical piece is that it is a large block between properties that we already own. If this land were sold to a series of ownerships as opposed to one large block it would cause significant pressure against the Department's ability to create forest block management. This is classic example of the kinds of forest lands the legislature had in mind for DNR to pursue as properties at risk of conversion because the parcel has beautiful views, and is ripe for conversion.

Mr. McFarland reminded the Board that if this property were converted the Department could have up to 40 neighbors, which would increase management challenges on the existing adjacent trust lands.

Jon Kaino asked what the zoning and density allowed is.

Mr. McFarland stated the zoning is forestry, which allows lot sizes to 20 acres, with one residential unit per lot (legally created lots conforming to current zoning, or legal nonconforming lots). Given the number of potential legal nonconforming lots available, development of the Bear Creek property could result in 40 or more residences on the property.

Mr. Challstedt said that 80 acre development can cluster, so they can increase the density that way. The view from the property is its high point.

Bob Nichols asked if there is a right of way across the property.

Mr. McFarland replied that there is a power line with a BPA right of way.

Bob Nichols asked if that has all been factored in.

Mr. Challstedt explained that part of the rights-of-way is owned by Seattle City Light as fee ownership and a small part is an easement. The rights-of-way has been factored into the valuation.

Mr. Nichols asked about the small block of land that is isolated.

Mr. Challstedt said that there is a 20 acre piece that is separated from the main block of property that is adjacent to our existing ownership that is part of the purchase.

MOTION: Bob Nichols moved to approve Resolution 1264.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

White Bluff #02-077212 (Handout 3)

Debi Van Buren, Transactions Manager, greeted the Board and presented the White Bluff Transfer.

The Department of Natural Resources proposes to convey by direct transfer to the United States Air Force, 34 acres, more or less, of Common School Trust property located in Spokane County. The proceeds from the transfer will be used to purchase replacement property desirable for the Common School Trust. The property asset base of the Common School Trust is improved by:

- Disposing of property that is inefficient to manage for revenue,
- Eliminating an unauthorized use on trust land, and
- Enabling the replacement of the trust asset with property that has greater potential for increased revenue production and other possible benefits.

The property is approximately 5 miles northeast of Fairchild Air Force Base, 2 miles north of the city of Airway Heights, 4 miles west of the city of Spokane and is within Section 36, Township 26 North, Range 41 East, W.M., in Northeast Region. There are no state-owned improvements on the property. Present income associated with this property is \$500 per year. Market value is \$182,000. The terms of the sale are cash. The transfer is authorized by RCW 79.17.200. This transfer expands an existing Department of Defense Joint Personnel Recovery Academy. Conveyance of title will be by quitclaim deed. Mineral rights will be conveyed in accordance with RCW 79.11.220. The lease will be surrendered at closing.

DISCUSSION:

Ms. Van Buren explained that the property is zoned RCV which is a rural conservation zoning in Spokane.

Jon Kaino asked about the \$500 income.

Ms. Van Buren explained that there was a grazing lease in place that is being surrendered.

Bob Nichols asked what a joint Personnel Recovery Academy is.

Ms. Van Buren said that most of the information is classified but that she assumes they do personnel recovery training, survival training, or recovery of soldiers missing in action.

MOTION: Jon Kaino moved to approve Resolution 1265.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Chair Sutherland said that this transaction has been in discussion for some time and explained that state and federal laws made it challenging for this transaction to be finalized. The Department will be meeting with both to conduct a simultaneous transaction. He commended Ms. Van Buren for her creative thinking that allowed for this to finally happen.

[Crall Hollow #02-080882 \(Handout 4\)](#)

Jeanne Williams, Southeast Region Transactions Manager introduced herself to the Board and began the Crall Hollow presentation.

The Department of Natural Resources proposes to designate 9.47 acres, more or less, of Common School Trust property, located in Columbia County, as Land Bank property for the purpose of sale. The proceeds from the sale will be used to purchase replacement property desirable for the Common School Trust. The property asset base of the Common School Trust is improved by:

- Disposing of property that is inefficient to manage for natural resource or income production, and;
- Enabling replacement of the asset with property that has greater potential for natural resource income production.

The property is located approximately 25 miles northeast of the city of Walla Walla and 5 miles east of the town of Dayton and is within Section 36, Township 10 North, Range 39 East, W.M., in Southeast Region. There are no state-owned improvements on the property. Present income associated with this property is \$886.21 per year for a Dryland Sharecrop and home site lease. The market value is \$56,000. Type of sale is public auction - oral bid. The terms of the sale are cash. The sale is authorized by Chapter 79.19 RCW. The parcel is encumbered by lessee-owned improvements, including a barn, machine shed, and various outbuildings, valued at \$19,000. It is the intent of this transaction to unite the ownership of the land and ownership of the improvements. Conveyance of title will be by quitclaim deed. Mineral rights will be reserved in the Common School Trust.

DISCUSSION:

Ms. Williams explained that the home site is surveyed out at 9.47 acres and is an odd configuration which was done to separate two discreet agricultural uses. If the Department were to retain any part of those 9.47 acres it would have been hard to manage. The property has been leased since prior to 1957; the home that was there was burned during the Columbia Complex fires in 2006. There are several lessee owned improvements on the site including a couple shops, barns and a machine shed. There are two domestic wells and a septic system. One of the wells is actually at the far end of the 9.47 acres which was another reason to draw the boundaries they way they were drawn. The proposal is to sell the 9.47 acres at public auction with the successful bidder paying the transaction costs and purchasing the improvements.

Jon Kaino asked if the successful bidder was to pay the owner of the improvements \$19,000 if the successful bidder is not the current lessee.

Ms. Williams stated that this is correct.

Bob Nichols asked if this was an isolated piece or is it nested within any of DNR's trust properties.

Ms. Williams replied that to the north is DNR property and to the south is Crall Hollow road; the Department is not creating an in-holding within its larger ownership.

Jon Kaino asked if DNR owns all the property to the north and this parcel has no specific value to it is there is any reason to retain it.

Ms. Williams said that it is a home site, so it is more difficult to manage.

Mr. Kaino said it is not a home site any more.

Ms. Williams replied that it has a history of the lessee wanting to purchase the property and being very outspoken about it.

Mr. Kaino asked if she meant that there are consequences if we don't sell.

Ms. Williams said that they have talked to their legislators. They want to buy the home site; they raised their children there and their family owns acreage to the east.

Mr. Nichols said that we are carving out a piece of property and selling it instead of reintegrating it into a larger block.

Jon Kaino agreed saying it seems like the property may be of some benefit to DNR's property holdings. He understands that there may be politics, but normally the goal is to get rid of these in-holdings and now we are creating one.

Ms. Van Buren explained that the lessee's intention is to rebuild but were unable to obtain a loan to rebuild because of the leased land. The Department has already created the in-holding by leasing this piece separate from the rest of the lease.

Mr. Kaino asked what the terms of the lease are and if we could give them notice to vacate tomorrow.

Ms. Van Buren explained that we could give them notice to vacate tomorrow and pay them \$19,000 for the improvements.

Mr. Kaino said that he only wants to do what is in the interest of the trusts. He asked whose land is to the north and if the Department is leasing it.

Ms. Williams replied that DNR is leasing it to the same people. They are two separate leases; they were separated in the 70's.

Mr. Kaino asked what the size of the block is.

Ms. Williams said it is half a section, 320 acres.

Mr. Kaino asked what they do with it.

Ms. Williams replied that she believes the lessee has been growing wheat.

Mr. Kaino asked what the income revenue is.

Ms. Van Buren explained that it is \$886 a year for the home site.

Chair Sutherland said that he thinks the Department can do much more with the \$56,000 than the \$886 a year lease. If the Department took the property back it would have to remove the vestiges of the home site, the wells would remain but the land would only be good for growing wheat and a 10 acre site would not generate that much revenue. He feels that the best interest of the trust is to sell the piece.

Mr. Kaino thought that if the Department took the 9.47 acres back and paid the \$19,000 it might open up more competition in the bidding process.

Ms. Williams explained that the topography of the land takes the actual area that can be farmed down to a minimal size. The current lessee grows hay for his own use.

Mr. Kaino asked what the zoning and density is, and if it is a legal and separate parcel..

Ms. Williams replied that it is and that the Department had to do a variance with the county; it has been surveyed and filed.

Mr. Kaino asked why the variance was required.

Ms. Williams replied that the parcel is larger than what the county normally allows for a home site in this area.

Mr. Nichols asked if there is a possibility of consolidating lands on the east side with the agricultural lands and blocking up to get rid of isolated parcels like this that might be something that we might off load and transfer out of.

Ms. Williams said that it is different with the agricultural lands than the forest lands. The Department looks at rainfall and the individual parcel viability. If there are 20 acres growing a high income it wouldn't want to sell it even though it's a defunct 20 acre parcel, whereas it may have 500 acres of grazing ground that isn't producing any income and the trusts would be better served by disposing of it.

Mr. Nichols asked about boundary management.

Ms. Williams replied that it is not quite the same.

Mr. Kaino said that the problem will only be solved if the lessee is the successful bidder.

Ms. Williams agreed.

Mr. Nichols asked if the minimum bid is \$56,000.

Ms. Williams replied that it was and that the successful bidder will pay for the improvements.

Mr. Nichols said that he does not recall this situation happening and this appears to be a one of a kind situation where the lessee is pressuring the Department to sell to them.

Ms. Williams replied that she presented Sherman Road a year ago and was the same kind of situation, and there was another incidence that occurred in Southeast Region prior to that.

Mr. Nichols thought this was reminiscent of the trespass resolutions.

Ms. Van Buren pointed out that the difference is that Department authorized these home sites.

Mr. Kaino asked if the Department has had a good relationship with this lessee.

Ms. Williams said that the Department has had a relationship with the lessee since 1957.

Mr. Nichols said that he felt that it might not be an ideal situation but may be in the best interest of the trust to move approval.

Mr. Kaino asked if this is a specific case where the lessee needs to purchase to obtain financing.

Chair Sutherland said that it is.

Mr. Kaino said that he understands that this is a unique case.

MOTION: Bob Nichols moved to approve Resolution 1266.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

Chair Sutherland called a 10 minute break at 10:15 a.m.

The meeting reconvened at 10:25 a.m.

CHAIR REPORTS

Chair Sutherland explained to the Board that he asked Bonnie Bunning and Bruce Mackey to review the Natural Areas Program and Trust Land Transfers with them.

Trust Land Transfer Program (Handout 5)

Bonnie Bunning, Executive Director of Policy and Administration and Bruce Mackey, Lands Steward approached the Board to provide the Trust Land Transfer Program presentation.

Ms. Bunning reminded the Board that during the April meeting they requested more information about the Natural Areas Preserves Program (NAP), Natural Resources Conservation Areas (NRCA) and Natural Heritage Program (NHP). She explained that in 1972 the legislature identified a need to establish a statewide system of natural areas that contained native ecosystems and habitats that would be protected and available for the future. The purpose of the NAP act was establishing the public policy to secure for the people of present and future generations the benefit of an enduring resource of natural areas by establishing a system of preserves and to provide for the protection of those preserves. The NRCA's and NAP's, which are two distinct things, include such public and private lands or waters that have retained their natural character, although they may not be pristine, perfect, natural and undisturbed, or which are important in preserving rare and vanishing flora, fauna, and geological, natural, historical, or similar features of scientific or educational value. They can be acquired voluntarily through a registry or dedicated by an owner or owned in fee by the state. In 1977 the Natural Heritage Program was established to provide objectivity in the process of setting those conservation priorities. In 1981 that program was placed in the Department of Natural Resources and it became responsible for the program and establishing the preserve system. To provide greater objectivity to the process of identifying areas for protection, the statute includes requirements for the scientific vetting of the elements and ecosystems to be preserved and establishes an advisory council to provide oversight. The Natural Heritage Program includes the management of a comprehensive database on natural ecosystems, vegetation communities, rare plants and animals in Washington State. It is maintained by the Department and every two years the Natural Heritage Plan is updated and published. The plan updates the priority status of the different plants, animals or ecosystems and their priority ranking may go up or down depending on the new information that has been obtained. It also sets the conservation priority based on rarity, its existing protection and threats. The program uses an international system of ranking, and natural heritage features are globally ranked and also state ranked. All 50 states have natural heritage programs in one form or another. The information in the plan and the database is used by county development departments, real estate developers, educators and scientists. It is also used to identify future natural area preserves that may need to be designated. NAP's are designated consistent with the Natural Heritage Plan; and must include an element (natural heritage feature) that's in the plan for it to be considered for NAP designation. The proposed boundaries are based on long-term viability of the element to be protected and that may include conditions of access, hydrological connections, climate and edge effects. NAP's include high quality ecosystems, rare plants and rare animals depending on the feature. The goal is to have an example of all the high quality ecosystems in the state of Washington that are detailed in the plan in some form of protected status.

Ms. Bunning explained that the Natural Heritage Advisory Council oversees this work. The council is a citizen's advisory committee to the Department and to both the Natural Heritage and Natural Areas Programs. The council consists of 15 members including the non-voting agency members, 5 experts in the ecology of natural areas and biological sciences, and 1 agricultural and 1 forest landowner. Council member duties include guiding the Natural Heritage Plan every two years; they recommend new natural areas, natural area preserves, and conservation areas, which is a recent change. They recommend and review boundaries and suggest changes to those. They approve site management plans and they advise the DNR Natural Areas Program

and other state agencies in managing natural areas. The Department of Fish & Wildlife and State Parks have a few natural areas on lands that they manage, however, the majority of this program of NAP's are with DNR. Through scientific work and the ranking in the Heritage Program candidate sites are identified, the Heritage Council reviews and approves a recommended boundary for the sites, and then they go through public meetings and hearings on the proposed boundaries. The Department reviews the input and if necessary based on public comment revises the boundaries. The Heritage Council's recommendations and public comments are taken to the Commissioner of Public Lands who makes the decision on that boundary and that NAP. Once the boundary is established, then funding is sought to acquire the lands whether they are state or private within the boundaries.

Chair Sutherland stated that the acquisition is not through eminent domain, but rather through a willing buyer, willing seller arrangement.

Ms. Bunning agreed that acquisitions are made with only willing sellers. An individual might find that their land is within a proposed boundary, but it has no impact on them other than the opportunity to sell it into a natural preserve status if they wish. Only lands that are within the boundary are eligible for acquisition. NAP's protect endangered and rare plants, animals, and ecosystems; they provide a source of reference comparing natural and managed landscapes, and they serve as outdoor laboratories for scientific research and education. The Department's sites are visited extensively by school groups and universities. There are numerous scientific research projects, some of them long-term in nature, that are ongoing on these sites. Some provide low-impact recreational use, particularly in buffer areas where it's compatible with the feature to be protected. There are 52 Natural Area Preserves in the program across the state.

Bruce Bare asked if they are all on DNR or if they are a mix.

Ms. Bunning replied that they are a mix, and that they are where the features are. The Department uses Washington Wildlife and Recreation Program funds to buy private lands and Trust Land Transfer (TLT) for the trust lands. She explained that NRCA's came about in 1987 as a proposal by the Department to the legislature to establish a new land designation to protect lands that are worthy of conservation for their outstanding scenic and ecological values, and to provide opportunities for low-impact public use. The first four conservation areas established by the legislature by statute were Mount Si, Woodard Bay, Dishman Hills, and Cypress Island. NRCA's protect land or water that has flora, fauna, and geological, archeological, scenic or similar features, there are examples of native ecological communities, and there are also to be environmentally significant sites threatened with conversion to incompatible or ecologically irreversible uses.

Ms. Bunning explained that the process for designating NRCA's is a bit different. Candidate sites are identified through a variety of means, The Natural Heritage Advisory Council may recommend the sites, the public can nominate sites, and the Department can recommend sites. The sites go through public hearings and meetings, the recommendations are made to the Commissioner and once the decision is made the sites may be established through the TLT process or otherwise acquired. The TLT list is a significant mechanism for establishing NRCA's,

the majority happen that way. The TLT list is built by the Department with input from others on a biennial basis and is forwarded to the legislature. When the money is appropriated the lands are acquired. There are 29 NRCA's located throughout the state, although predominantly on the west side. The management of natural areas is site-based decision making guided by science. In 1992 a statewide management plan for NRCA's was developed that fits over all those conservation areas until they get a site specific plan made. The focus is on the conservation priorities and site specific natural features. Those management guidelines are developed through the advice of the Natural Heritage Advisory Council and the program scientists, working with public and conservation partners. Often during the management planning process for NRCA's, which are public processes with a lot of involvement, the boundaries are reviewed and hearings are held for any proposed changes.

Ms. Bunning summarized her presentation stating that DNR currently manages 52 NAP's totaling 32,000 acres, and 29 NRCA's totaling 93,000 acres. Combined these lands represent about 2½% of the Department's land management responsibilities. The Department is celebrating its 50 year anniversary as well recognizing the 35th year of the Natural Area Preserves Act, 30 years for the Heritage Program, and 20 years for the NRCA Act.

Ms. Bunning moved on to the TLT portion of her presentation. She explained that TLT is a program that has been in place for the past 2 decades. It is the primary way that the management is changed for trust lands that are identified as preferable for preserves or conservation areas and the trust is compensated. The legislature appropriates the dollars, the candidate site is paid for and the property is then transferred into an NRCA, NAP, or in other cases to State Parks, Fish & Wildlife for habitat, counties and cities for parks or open space, special districts, public entities. 80% of the land and timber value goes straight into the common school construction account to build more schools. The 20% that represents the land value is placed in the real property replacement account; out of that the Board approves purchases of lands that can begin to generate revenue back into the common school construction account. This program uses the funds appropriated for K -12 education to provide immediate revenue for school construction, future revenue for the trust and protects special lands of importance to the state. The Department develops the biennial package with the estimated land and timber values. The 80/20 ratio is very important in what properties are included, it is an overall 80/20 for the whole list so the Department tries to mix and match to maximize the number of parcels that it can transfer and stay true to the ratio. The Department finds a public recipient and makes sure that the public recipients are interested in acquiring those properties, sometimes they nominate, them sometimes others do. The proposal is presented to the Board and the package is taken to the legislature through the budget process and it is included in the Department's capitol budget request. The legislature finalizes it, occasionally adding to it or subtracting from it. The appropriation is set in the capitol budget bill. The Department has 2 years to execute the transfers on market value appraisals, each one of those separate transactions comes to the Board for approval.

Chair Sutherland noted that though the legislature finalizes the package and sets the appropriations, if DNR doesn't complete the transactions the money automatically goes to the common school construction account. He explained that the Department has to maintain the

80/20 timber vs. land value and that sometimes the properties change value over time to the point where the Department can't keep the 80/20 ratio and still acquire the land in the 2 year time period. It becomes a mad dash to make sure that DNR completes as many transactions as possible within the appropriate amount. If it doesn't do that, any monies not expended automatically goes in to that common school construction account.

Ms. Bunning agreed. She explained that DNR puts the list and values together on an estimate of the timber value for the properties and once it gets to the third party appraisal stage on occasion there is a difference. Ms Bunning commended Evert Challstedt for the job he does keeping the ratio, the properties and the recipients in line.

Chair Sutherland asked Ms. Bunning to review the slide showing the history of the monies expended. She explained that the common school trust account received \$437 million which is 81.2% of the value total over the years. Administrative costs average 2%.

Bob Nichols asked if natural NAPS' include geological features.

Ms. Bunning replied that they may.

Mr. Nichols said that it seemed like geological features could be included, but the emphasis seems to be on endangered or rare plants, animals and ecosystems; the geological part tends to get lost so he thought that maybe it was part of the NRCA.

Ms. Bunning explained that it is a particular emphasis in the NRCA as mentioned in the enabling statute. The heritage database is plants and animal and ecosystems, predominantly those are what form an NAP. Often though unique geological features may be host to unique plants and animals so there is some crossover.

Mr. Nichols asked which program would protect the unique geological features regardless of ecosystems.

Ms. Bunning replied that the NRCA would protect the unique geological features, for example Mt. Si is an iconic geological feature and is an NRCA.

Mr. Nichols asked about public access on NAP's, for example, Mima Mounds and Kennedy Creek allow the public to walk through them. Mr. Nichols said that he thought that NAP's were fairly restrictive.

Ms. Bunning explained that NAP's can be fairly restrictive depending on the nature of the site and what's being protected. For example, Kitsap Forest is an NAP ecosystem type and is more resilient than perhaps a more floral species that is not resistant to trampling or invasive species. The site specific management plans predicated the management strategy and the public access opportunities on the nature of the site, what it can withstand, or if it has a buffer included on it.

Mr. Nichols said that he understands that there is no access to an NAP except by special permission, and it all depends on the management plan which is specific to each site.

Ms. Bunning confirmed his statement and said that prior to having a management plan unless there is already something in existence like a road; it is basically protected until the Department knows it can design the appropriate access. Some of them are in buffer areas, or the Department will build a boardwalk or a guided educational platform for viewing so that the public access can be directed in such a way that it is not going to injure the feature.

Mr. Kaino said that he understands that management plans determine what can be done with the parcels, but there aren't any. Some of these have been designated an NAP or NRCA for 15 years and they still don't have a management plan. Default to the management plans is on the basis that the management plan exists and many of them don't. He also noted that there are 5 times as many NAP's in Pacific and Gray's Harbor counties as there are in Thurston, Pierce, King and Snohomish counties combined. This is perceived in the rural areas as a way for the urban people to set aside property that they have already developed in their county so it can't happen in another rural county. He said that in Pacific County there has been a lot of property purchased and when he walked the NAP it had just been logged even though it had been presented as having to be there as a buffer to the other property. He said that there are hundreds of acres in that NAP that was recently logged and replanted, so it's not just old growth that is being bought; it's not just to protect certain species. He stated that he is not saying that these activities are going on now; he is simply giving a historical perspective of what did go on. He gave an example where property owners were told that they would sell their property or their forest practice applications and all activities that they proposed on their forest land would be fought. He agreed that there are good things about the NAP's but he has seen rural areas being targeted and he feels it is political rather than objective. He does not like the impact it has, and feels it reduces the private land base in rural counties which has a tax revenue effect on poor counties. He said that if the counties are going to be impacted by the marbled murrelet habitat he suggests that all the nesting sites and all the marbled murrelet management areas in Pacific, Wahkiakum, and Gray's Harbor counties be moved to the top of the NAP list so they'll get transferred over and exchanged for common school. Then he'd like to see them moved right to number 1, 2 and 3 on the list in the NHP; he feels that only then will we actually be protecting the marbled murrelet habitat and helping those county's revenues.

Bruce Bare asked if the TLT program can purchase both NAP and NRCA properties.

Bonnie Bunning replied that they can. The difference is that the NAP has to have an element occurrence that has been scientifically determined to be globally imperiled. With the NRCA that standard is not there and geologically it can be important for open space, there is less of a scientifically determined definition in the NRCA. The Department may identify sites that would be better protected for those purposes on trust lands and put them on the list; they don't have to go through the same screening as the NAP's. If an NAP is identified and the boundaries established and there are trust lands within it, then the Department uses the TLT to buy those properties out.

Mr. Kaino asked what percentage of the management plans are written.

Pene Speaks approached the Board to answer Mr. Kaino's questions. She indicated that a third of the sites have modern management plans. There are interim management plans for most of the sites; but those are essentially a plan that identifies what is there and gives a plan on how they should be managed ecologically. Only about a third of the sites have plans that have gone through the full blown public process and input.

Mr. Kaino asked of those which have excluded public access.

Ms. Speaks said about a third of the sites prohibit public access because of sensitivity issues. Most have some type of public access through a trail or observation area that is being used by school groups. She said there is a small preserve in Thurston County that contains the best population of golden paint brush left in the world and is closed. Mima Mounds has a trail system on it and is open, and the Chehalis River Surge Plain in Gray's Harbor County has good trail development, but about a third of the sites do not have general public access.

Mr. Kaino asked what the legal requirements are for providing a permanent plan and is there a time limit for providing the plan to the public.

Ms. Speaks said there is not. She emphasized that the Department has asked for the capacity to do management planning but it often comes down to doing weed control which needs to be done to keep the ecosystem in good shape. The weeds are taken care of first because it is most important to maintain the ecosystem or plant community. The Department has not been able to regain the capacity to do management planning though it has requested funding for it. Some scientific capacity has been added this biennium which will allow for more management planning over the next couple of biennia.

Chair Sutherland said that all of this is funded from the general fund and the appropriations are from the legislature, but the Department has not gotten a sympathetic ear from them in the past.

Mr. Kaino said that if DNR can't meet the requirement on the properties it already has, then maybe it should stop adding to it, and then maybe it would be able to fulfill the obligations it already has.

Ms. Bunning said that is a legitimate view but it also competes with the sense of threat to some of the ecosystems that come from potential conversion.

Bruce Bare asked if NAP's are synonymous with natural areas.

Pene Speaks said that when the NAP act was passed the Department didn't have any other natural area designation. The NRCA didn't come into existence until 1987. Natural area and natural area preserve are used interchangeably in the act language (79.70 RCW); the definition is referring to natural area preserves. There is a capacity built into the statute that allows private citizens or anyone who owns land to register their property as a natural area. There is a

registration process that goes before the Natural Heritage Advisory Council; we don't purchase it, the land owner voluntarily agrees to manage their land or a piece of their land for the natural heritage feature that is there. Those are natural areas that are recognized but are not part of the preserve system.

Chair Sutherland thanked Ms. Bunning and Ms. Speaks. He asked Bruce Mackey to explain how the varieties of different properties that are considered for conservation affect the trusts.

Bruce Mackey presented the Trust Land Transfer and DNR Policies portion of the presentation. When the sustainable harvest was passed in 2004, Resolution 1110 provided management principles and objectives. The eighth one identifies those trust lands that are inefficient or unsuitable for meeting the trust mandate or fiduciary responsibility, but appear to provide ecosystems and/or public benefits. It states that in partnering with communities and other interest groups DNR should identify and prioritize parcels no longer suited for trust land management and look for creative ways to remove those lands from trust inventory, such the trusts are fully compensated. In the Policy for Sustainable Forests it is clearly stated at least 5 times to move the lands out when they have high social/environmental values and the trust can be compensated. Examples are the policy on wildlife habitat, the old growth policy, the policy on special ecological features, and the policies on cultural resources and visual impacts. In the Sustainable Harvest and the Policy for Sustainable Forests the environmental and economical circles were dealt with. It seems that the TLT program is part of the social circle that Bob Nichols has referred to in the past. These are long-term policies where the Department is looking at 100 years of planning for the sustainable harvest. In contrast the TLT program is a budget proviso. It is not an RCW and DNR doesn't know if will be funded from year to year. In the past the Department has received anywhere from zero to \$170 million for the TLT, the average is \$50 to 60 million per year.

In the TLT program there is a third party appraisal of the whole parcel and then there is an appraisal of the commercial value of the timber. A third party appraiser asks what would happen if this land was transferred to a private entity when forest practices, and other environmental standards have to be met. Timber volume in 2005 was about 5 mmbf, 69 mmbf in 2006, and 71 mmbf in 2007. That equates to about 10% of the volume the Department actually sold in those latter two years. If most of the TLT volume is in general ecological management, or short-term deferred land uses there could be a potential impact on sustainable harvests because those are lands that are identified in the ten year harvest plan as being available for harvest.

Bruce Bare said he does not understand that concept.

Mr. Mackey explained that 25 to 30% of the land in the current sustainable harvest calculation is in long-term deferral. By definition that means it is going to stay where it is during the ten year planning horizon. On the other side, the major portion of our lands are in general ecological management, matrix areas, or they are in short-term deferral which means it is available for the sustainable harvest calculation for the planning decade. If 10% of the total volume were actually in the short-term, and deferred, it could have a potential impact on the sustainable harvest. In theory you could be cutting 10% more than what was in the sustainable harvest

calculation. The flip side is that if most of that acreage was in long-term it would have very little impact on the sustainable harvest for the ten year period. The Department is in a dilemma and doesn't know for sure; some regions had identified some areas that they thought were going to be in the TLT and they took them out, other regions didn't do that at all. He said he doesn't know if the TLT will be available in the next biennium or how much money is going to be in it.

Bruce Bare said that if the timber on the TLT's represents about 10% of the sustainable harvest statewide then the amount of timber that is from short-term deferrals has to be less than that, it can't be more; they aren't all short-term deferrals so the Department is dealing with something that is a maximum of 10%, but it doesn't know what the percentage is.

Mr. Mackey replied that this is clearly the case, and the Department is looking at it. The Department plans to track it, and account for it. He said that there may not be money for the TLT program next biennium, or there might be an advocacy to have the program be bigger next year. If it were used to offset some of the marbled murrelet impacts on smaller communities the Department could find the impact becoming more prominent. If that happens it could have impacts on potential revenue to RMCA or FDA. There is only a 2% administrative cost associated with transferring properties to NRCA's or NAP's using the TLT program, there are some costs in the land that's been transferred and there are going to be costs in the land that's acquired. If this program grows the Department needs to be cognizant of what those costs are and plan for them.

Chair Sutherland said that typically the Department looks at a parcel of timber land that has mature, or in some cases old growth timber on it. DNR processes it through the TLT; it receive monies for the timber that goes into the construction account and the value of the land goes into the replacement account to buy land with zero to fifteen year old timber on it. The Department has a 40 - 60 year period where it continues to make investments out of pocket on the cost side and because the revenue all went to the common school construction account, there is no set aside for the management fee.

Bruce Mackey said the Department doesn't know how big of an issue this might be. The TLT program has been a tremendous benefit for the trusts. If the program grows and if it becomes more popular and gets pushed for other uses the Department needs to be aware of that. In the 2007 annual report the actual value that was transferred to the common school account was clearly documented as 5600 acres transferred and the volume associated with it. If the Department thinks that it will have an impact on the sustainable harvest in the future it will ask the Board to think about how they might include the volume in the sustainable harvest.

Bruce Bare said he feels that in theory the timber from the TLT should be identified for a decade, removed from the timber base, and the sustainable harvest done.

Chair Sutherland agreed with Mr. Bare but he said that the Department doesn't know what lands are going to be put on the TLT list. He feels it's important for the Department to recognize timber that is sold, but in a different sales category than standard harvest volume sold.

Mr. Mackey noted that when the Department did the sustainable harvest 20 years ago it was clear that most properties would not have been harvested, Mt. Si as an example. As the program has matured it has included more properties that were not in long-term deferrals when the sustainable harvest was put together.

Bonnie Bunning said that she will be reviewing asset management planning at the June meeting. She said that there is more conservation information out there that will help the Department to predict where the TLT properties may come from in the future and whether they are part of the sustainable harvest plan.

Chair Sutherland said he is concerned that if it is in the sustainable harvest plan and we suddenly decide to do a TLT then we try to make up harvesting from other sources that weren't in that particular annual or decadal plan, and then we will be over harvesting at a level that wasn't anticipated. He said he is aware that this is an issue and feels the Department needs to see if there is a better way to recognize and acknowledge it.

Bob Nichols asked who owns the land in the NAP's.

Ms. Bunning replied that when it is a state agency that acquires the land, the State of Washington owns the land and the respective agency manages it.

Mr. Nichols said he is confused about a private entity like the Nature Conservancy that operates under the auspices of a statewide program.

Pene Speaks said that the Natural Heritage Plan takes into account natural heritage features that are already protected as priorities are being set. The natural heritage priority ranking system focuses on those features that are at greatest risk first. When something is already protected then the priority of that feature generally goes down. When a non-government organization (NGO) like the Nature Conservancy identifies an area and designates it as an NAP, some of those have gone through the Natural Heritage Advisory Council, and they are managed for the same purposes of protecting that natural heritage feature as we do on the state owned lands, we count that as protection and whatever that natural heritage feature is then is a lower priority because it is already protected.

Ms. Bunning stated that it is owned and managed by the private organization.

Mr. Nichols said that there is an undifferentiated blend between what is state, and what is private.

Ms. Speaks replied that only in the accounting of the protection. Many of the past practices for negotiating acquisitions and interacting with the local communities have changed because they weren't community friendly and were not going to produce a good result in the long-term. The Natural Areas Program has made some dramatic policy changes around working with communities. There may have been some past abuses by NGOs in dealing with landowners, but those practices have changed. The association with private non-profits has changed since

the state run NAP system has gotten more robust. When the program began in 1972 it was collaboration with 5 state agencies and the Nature Conservancy, who actually started the program across the country, but that association has diminished as those programs have taken on responsibilities under the state auspices.

Mr. Kaino said that many of the practices he mentioned earlier took place 8 to 10 years ago. He also said that interim management plans are not meant to be in place for 20 years. He clarified that if an NGO purchases a piece of land is it lower on the priority list because it is already protected.

Ms. Speaks explained that the land with the natural heritage feature on it stays as a high priority for conservation but if there is a sizeable representation of that feature, the feature will go down in priority in the Natural Heritage Plan.

Mr. Kaino said that very rarely does the Nature Conservancy purchase property unless it is being pursued by a state program that lacks funding.


Chair Sutherland thanked Mr. Mackey, Ms. Bunning and Ms. Speaks for their presentations. He invited the Board members to the work capacity test on May 19th at 8:00 a.m. at the Woodard Bay NRCA. He also announced that the Board retreat will be held August 12th & 13th in Southeast Region.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

None

Meeting adjourned at 11:36 a.m.

Approved this 3RD day of JUNE, 2008



Doug Sutherland, Commissioner of Public Lands



Bob Nichols for Governor Christine Gregoire

EXCUSED

Terry Bergeson, Superintendent of Public Instruction




Jon C. Kaino, Commissioner, Pacific County



Bruce Bare, Dean, University of Washington

EXCUSED



Daniel J. Bernardo, Dean, Washington State University

Attest:



Bonita Hill, Board Coordinator